

A hand is visible in the upper right corner, holding a piece of chalk and writing on a chalkboard. The chalkboard has some faint, partially visible mathematical formulas, including $x+9$ over a horizontal line, and $x^2 - 4x^2$ below it. The background is a dark, textured surface.

Teacher Retirement System

Senate Committee on State Affairs

November 15, 2010

TRS

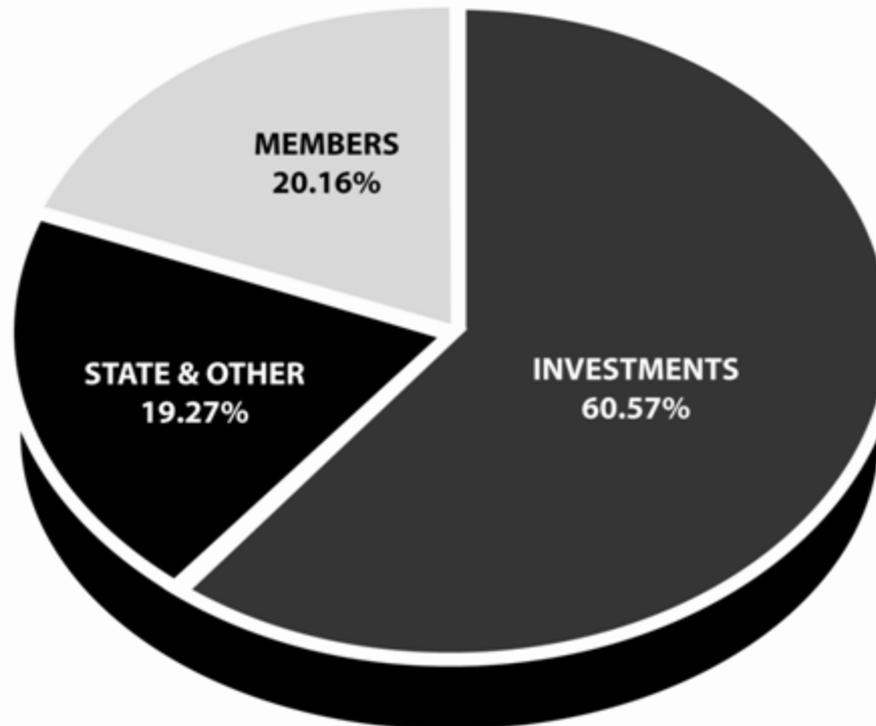
- Created in 1936 by Constitutional amendment (enabling legislation in 1937).
- Mission:
 - **to deliver retirement and related benefits** authorized by law for members and their beneficiaries; and
 - **to prudently invest and manage the assets** held in trust for members and beneficiaries in an actuarially sound system administered in accordance with applicable fiduciary principles.
- To comply with fiduciary standards—
Monies held in trust must be used exclusively for the benefit of TRS members. The Board of Trustees act as Fiduciaries.
(9 member Board appointed by Governor.)

Retirement Benefits Plan

- Established by Article XVI, Section 67, *Texas Constitution*
- **One in 20 Texans is a member or retiree of TRS.**
 - 1.3 million members and annuitants
- Approximately \$100 billion pension trust fund
- Defined benefit plan structure; Legislature establishes all benefits.
- TRS paid out \$6.7 billion in benefits in FY 2010.
- 95% of annuitants reside in Texas.

Fund Revenue Sources

Pension Trust Fund Additions 1937-2010



TRS Pension Trust Fund

- Feb. 28, 2009 \$ 70.6 billion
 - Aug. 31, 2009 \$ 88.7 billion
 - Aug. 31, 2010 \$ 95.7 billion
 - Current approximately \$ 100 billion
-
- The TRS actuarial valuation update for the legislative session will be available in March 2011.

TRS Actuarial Valuation

- The TRS Actuarial Valuation (as of August 31, 2010) reports relatively little change from the previous year's valuation.
- Investments outperformed 8.0% assumption on market in FY2010
 - Market return on assets 10.7%
- The trust fund's unfunded liability is now \$22.9 billion (up from \$21.6 billion in 2009) with a funded ratio of 82.9 % (down from 83.1 % in 2009).
- If the current contribution policy continues, the trust fund is projected to have sufficient assets to make benefit payments through 2072, an increase of 14 years over the last valuation.

TRS Actuarial Valuation

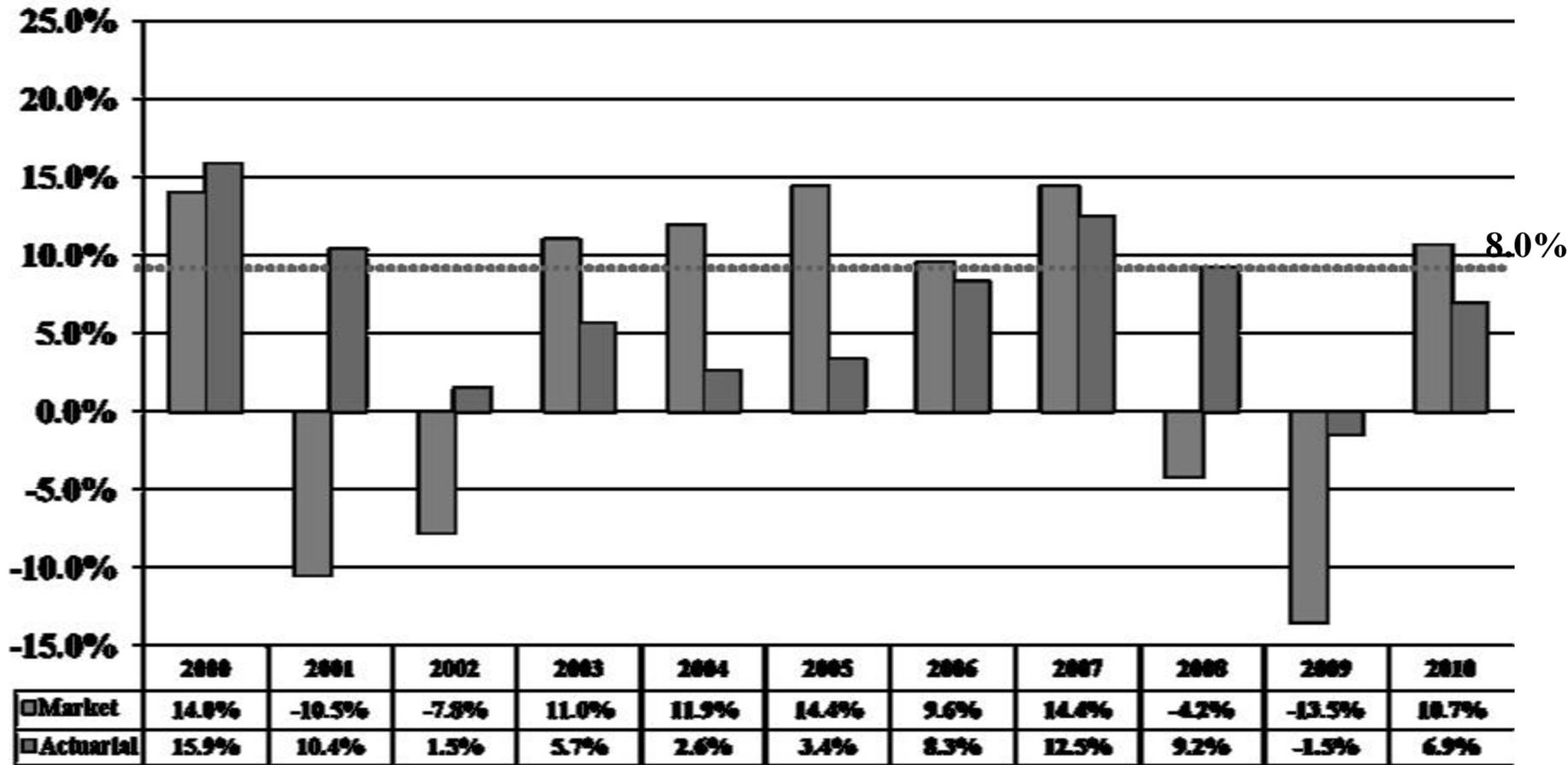
- State contribution rate currently 6.644%
 - 6.00% from 1995 to 2007
 - 6.58% for 2008 & 2009
 - 6.644% for 2010 & 2011
- 30-year Annual Required Contribution rate (ARC) for the state increased from 7.72% (2009 valuation) to 7.77% of pay.
 - Assumes member rate continues at 6.40%
 - Effective split rate between employers and employees would be 7.13%
- Funding period continues to be “Never”

TRS Actuarial Valuation

- Normal cost % = 10.42%
- Total deferred net investment gains (losses)
 - at August 31, 2008 = \$(5.3) billion
 - at August 31, 2009 = \$(23.1) billion
 - at August 31, 2010 = \$(15.6) billion
- TRS actuarial valuations mitigate short-term fluctuations in rates of return through a process called “smoothing.” This allows the impact of annual gains and losses to be spread out over a five-year period.
- TRS in position of deferred net investment losses

If no offsetting actuarial gains, funded position of System should decrease over the next four years.

Estimated Yields Based on Actuarial and Market Value of Assets

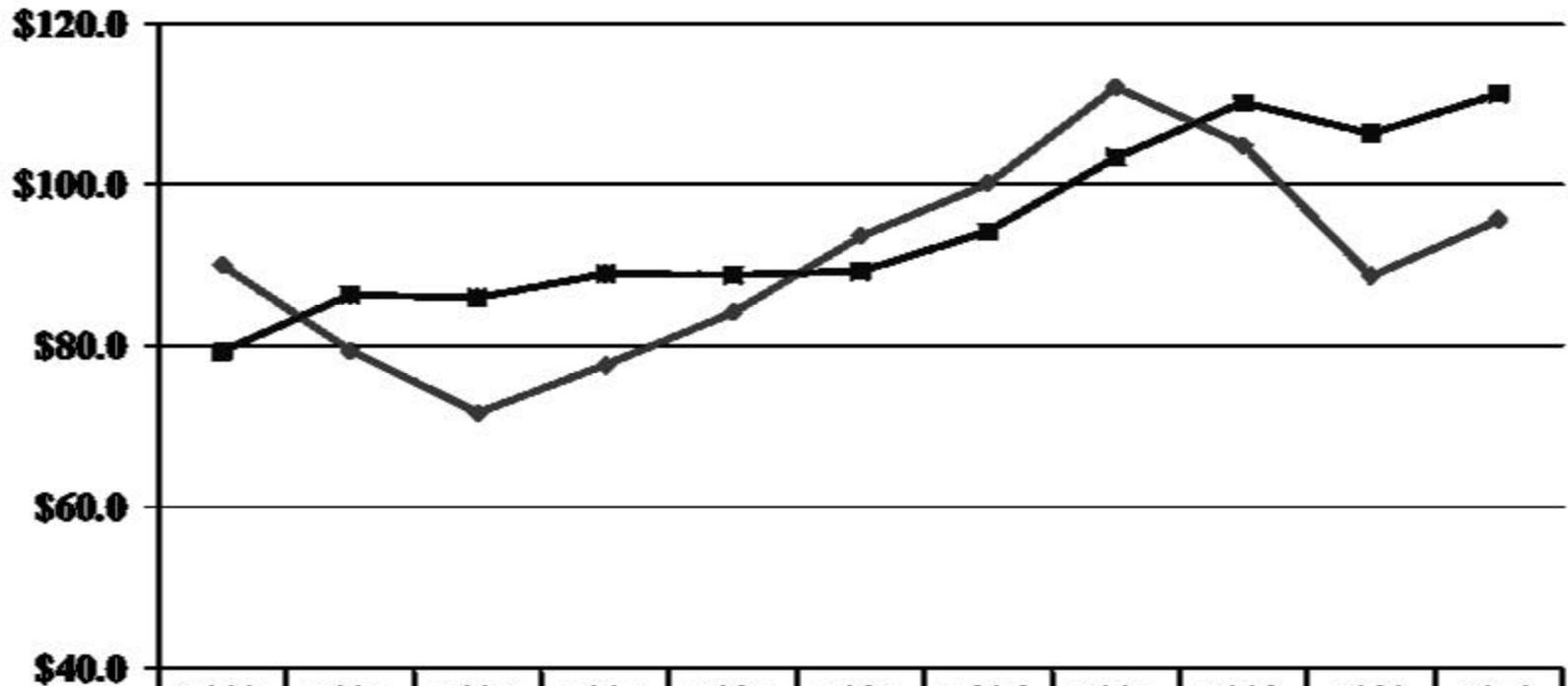


3.04% average compound return (on market value) over last 10 years. 8.40% over last 20 years.

5.82% average compound return (on actuarial value) over last 10 years.

Market and Actuarial Values of Assets

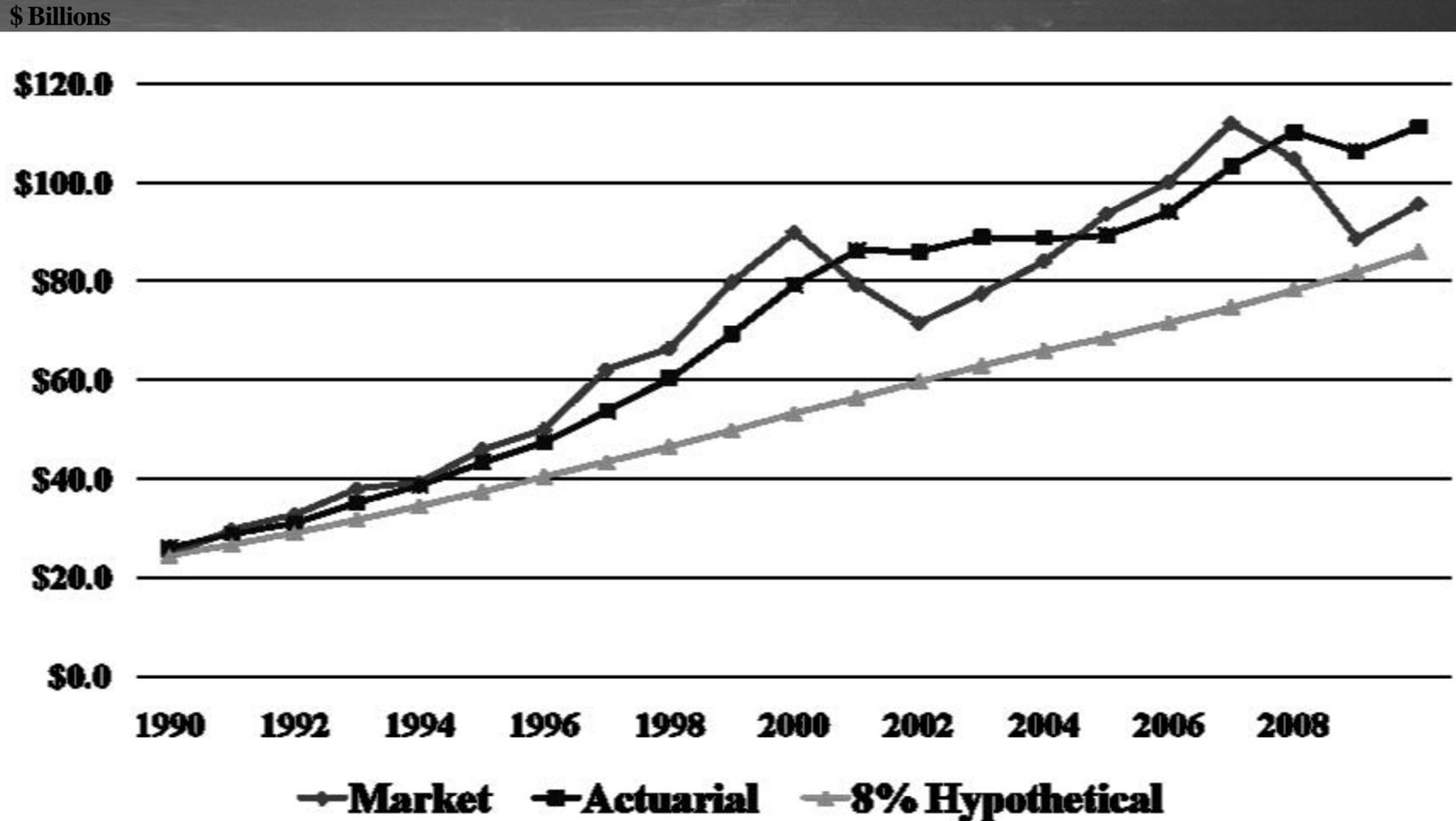
\$ Billions



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
◆ Market	\$90.0	\$79.4	\$71.7	\$77.6	\$84.2	\$93.7	\$100.2	\$112.1	\$104.9	\$88.7	\$95.7
■ Actuarial	\$79.3	\$86.4	\$86.0	\$89.0	\$88.8	\$89.3	\$94.2	\$103.4	\$110.2	\$106.4	\$111.3

AVA is currently 116.3% of MVA compared to 120.0% last year

Market and Actuarial Values of Assets



8% Hypothetical assumes 8% had been earned on market every year since 1990, all cash flows unchanged

Next Actuarial Valuation Update

as of Feb. 28, 2011

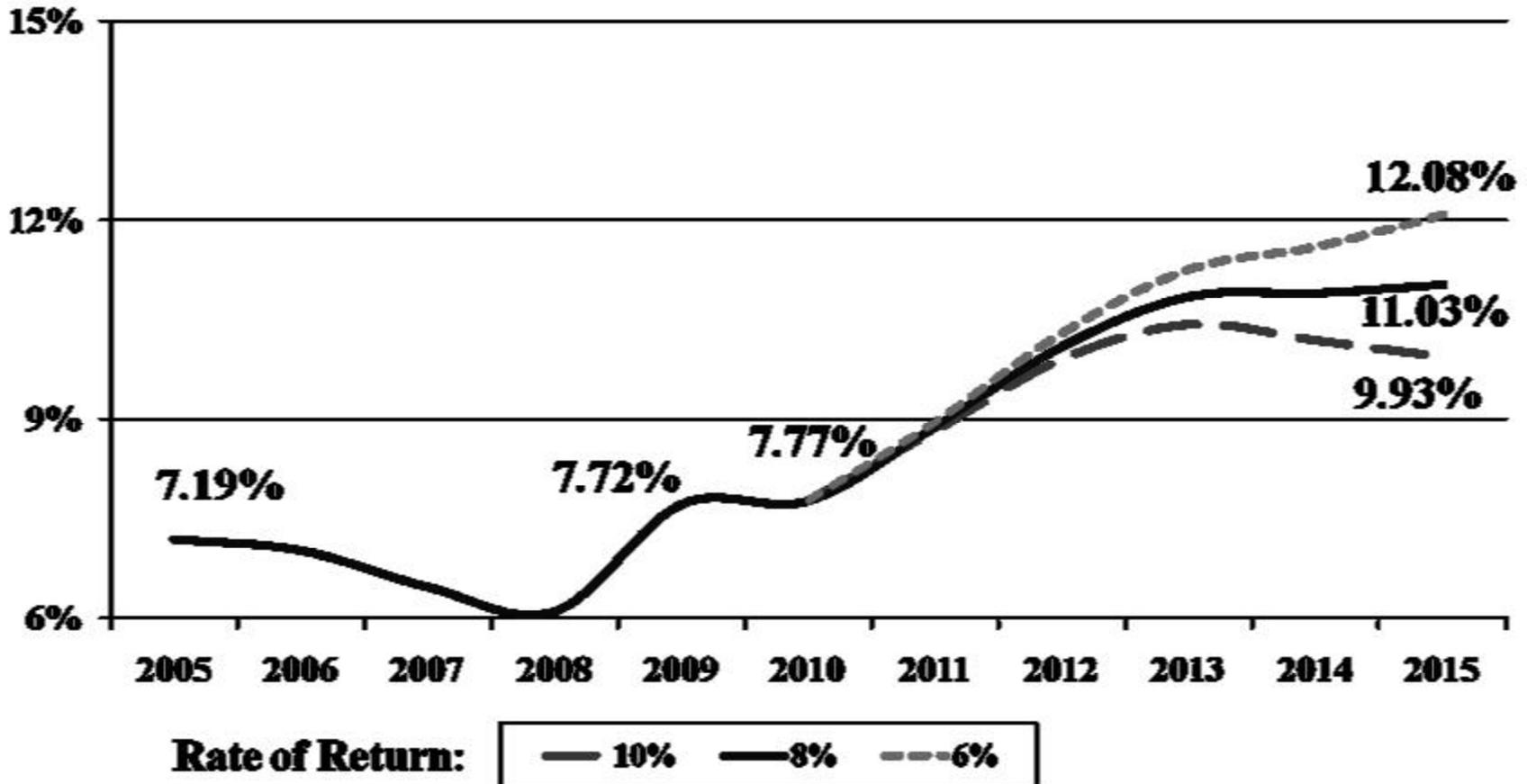
- The February 28th update will recognize 1/6th of the remaining deferred losses.
 - approximately \$3.5B
- Caution should be taken going into this legislative session.
- Non-funded legislative benefit enhancements, including non-funded retiree ad hoc benefit increases would add more uncertainty to the future valuations.

February 28, 2011 Projections

	Market Return for 6-month period ending February 28 th , 2011						
	16%	12%	8%	4%	0%	-4%	-8%
UAAL	\$25.5	\$25.9	\$26.2	\$26.6	\$27.0	\$29.0	\$33.5
Funded Ratio	81.5%	81.2%	81.0%	80.7%	80.4%	79.0%	75.6%
Funding Period based on 6.644% rate	Never	Never	Never	Never	Never	Never	Never
30 Year employer ARC	8.12%	8.18%	8.25%	8.31%	8.37%	8.69%	9.42%

Estimated Changes in ARC Rates

Due to Recognition of Deferred Asset Gains/(Losses)



- Expected ARC at each valuation date based on stated return during each year
- Assumes continuation of 6.644% State contribution rate
- Constitutional Maximum = 10.00% State contribution rate

TRS Outlook

- Significant deferred investment losses remain.

\$15.6 billion in deferred investment losses are waiting to be recognized in 2011 – 2013 valuations
- The current combination of benefit structure and contribution policy is likely not sustainable indefinitely.
- Non-funded legislative benefit enhancements, including non-funded retiree ad hoc benefit increases would add more uncertainty to the future valuations.
- TRS Actuary recommends the contributions to the Fund be increased over the next few legislative cycles.

TRS and Social Security

- For most of the past 10 years, TRS members contributed 6.4% of payroll while the state contributed 6.0%. For Social Security participants, the employing public school contributed an additional 6.2% of payroll, and the employee contributed 6.2%.
- Approximately 80% of TRS members do **not** participate in Social Security.
- If those 80% were required to contribute to Social Security, an additional \$2.9 billion in employer and employee contributions would have been required in 2009.

TRS and Social Security

- Although funding has been substantively equal, TRS benefits are significantly better than Social Security.
- In October 2009, the average monthly Social Security benefit for retirees was \$1,162, about 37% less than the \$1,840 average 2009 monthly TRS benefit (after adjustment for the Partial Lump Sum Option).
- Assume that a teacher retires in May 2010 at age 62 with 35 years of service. The teacher's final average salary at retirement is \$62,942. The TRS monthly annuity would be \$4,222 as compared to an estimated Social Security benefit of \$1,257.

The example assumes that approximately the same total dollar amount is contributed to each system and that the Social Security benefit begins at age 62. If this teacher were to purchase a retirement annuity at age 62 from an insurance company that provided the same TRS monthly benefit of \$4,222 per month for life, it could cost over \$700,000.

Health Care Plans Administered by TRS

- **TRS-Care** for retired public school employees covers approximately 162,000 retirees and 43,000 dependents for a total of 205,000 covered lives.
 - **80% of participants are member retirees.**
- **TRS-ActiveCare** for public school employees covers approximately 246,000 employees and 168,000 dependents for a total of 414,000 covered lives.
- Optional Insurance for public school employees, retirees, and dependents.

TRS-Care

Key Information

- **TRS-Care established in 1985**

- Initial statute required TRS-Care to be a minimum premium insurance program. No medical network and only a mail order pharmacy benefit.

- **Pay-As-You-Go Program - 78th Legislature established district contributions as an additional revenue source, effective FY 2004.**

- Contribution rates for the state, active employees and districts have increased periodically. Current contribution rates as a percentage of district payroll:

State 1.0%, Active Employees 0.65%, District 0.55%

- **Current Program**

- Three plan options, including a free basic level plan for retirees.
- Since 2006, TRS-Care is self-funded and uses the Aetna contracted network, and a PBM administers a carve-out retail and mail Rx benefit.
- Medicare D prescription drug program, established 1/1/06, provides a federal subsidy for eligible drug expenditures.

TRS-Care Plan Design

Program Redesigned Effective September 1, 2004

- TRS-Care 1 - Catastrophic plan with different deductibles for retirees (1) under 65, (2) with Medicare Part B Only, and (3) with Medicare Parts A&B
- TRS-Care 2 – Comprehensive plan with \$1,000 deductible and \$35 office visit copay and includes managed pharmacy program
- TRS-Care 3 – Comprehensive plan with \$300 deductible and \$25 office visit copay and includes managed pharmacy program
- Retiree premium structure based on years of service and Medicare status
- Coinsurance limit \$3,000 effective 9/1/2007

Overview of TRS-Care Plan Design

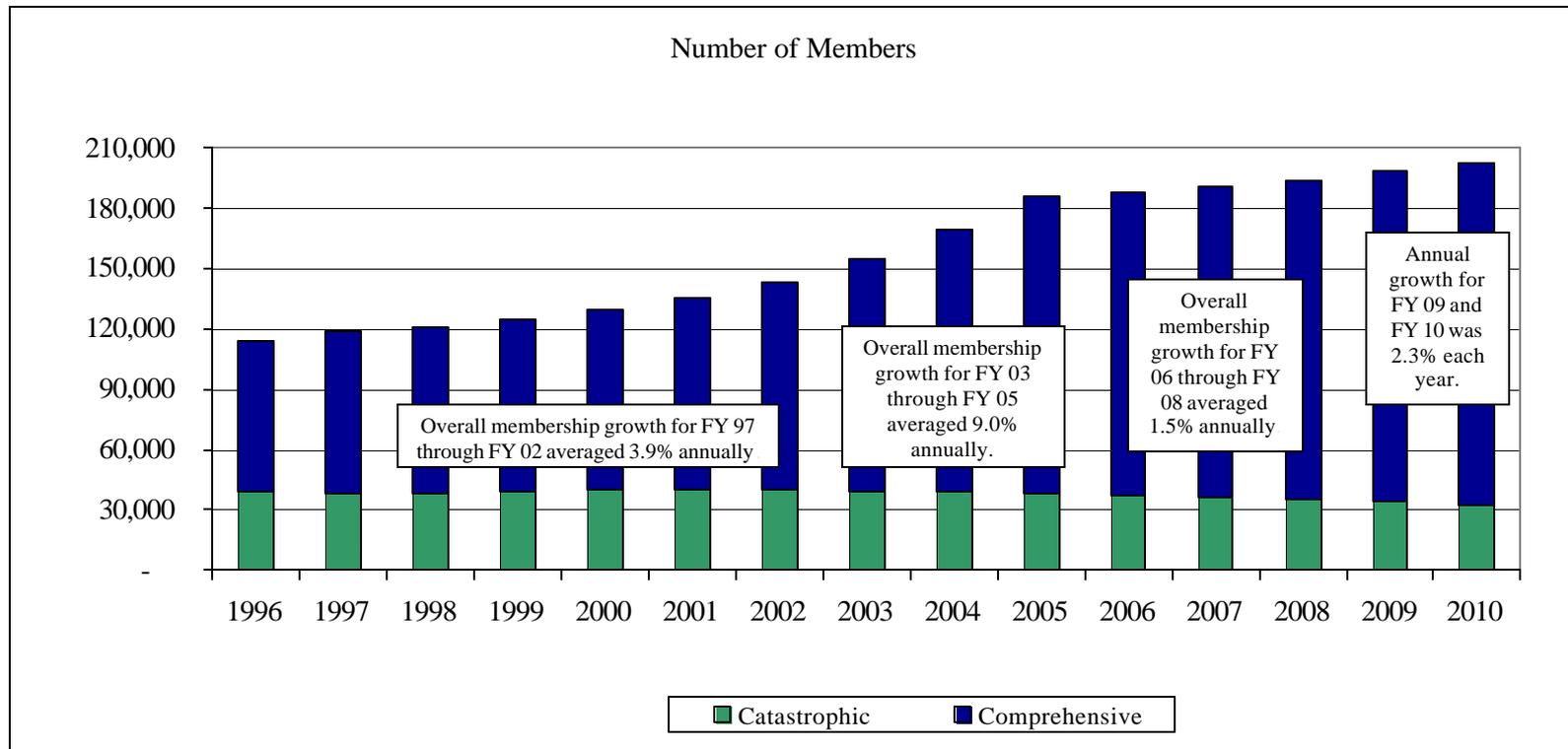
Goals of the Program Design

- Create a more cost effective comprehensive TRS-Care 2 Program
- Reduce number of pre-65 retirees through TRS-Care eligibility requirements
- TRS-Care 1 participation has decreased by approximately 5,900 since 9/2004
- TRS-Care 2 participation has increased by approximately 23,500 since 9/2004
- TRS-Care 3 participation has remained relatively constant since 9/2004 by increasing only 1,600

TRS-Care Participation Growth

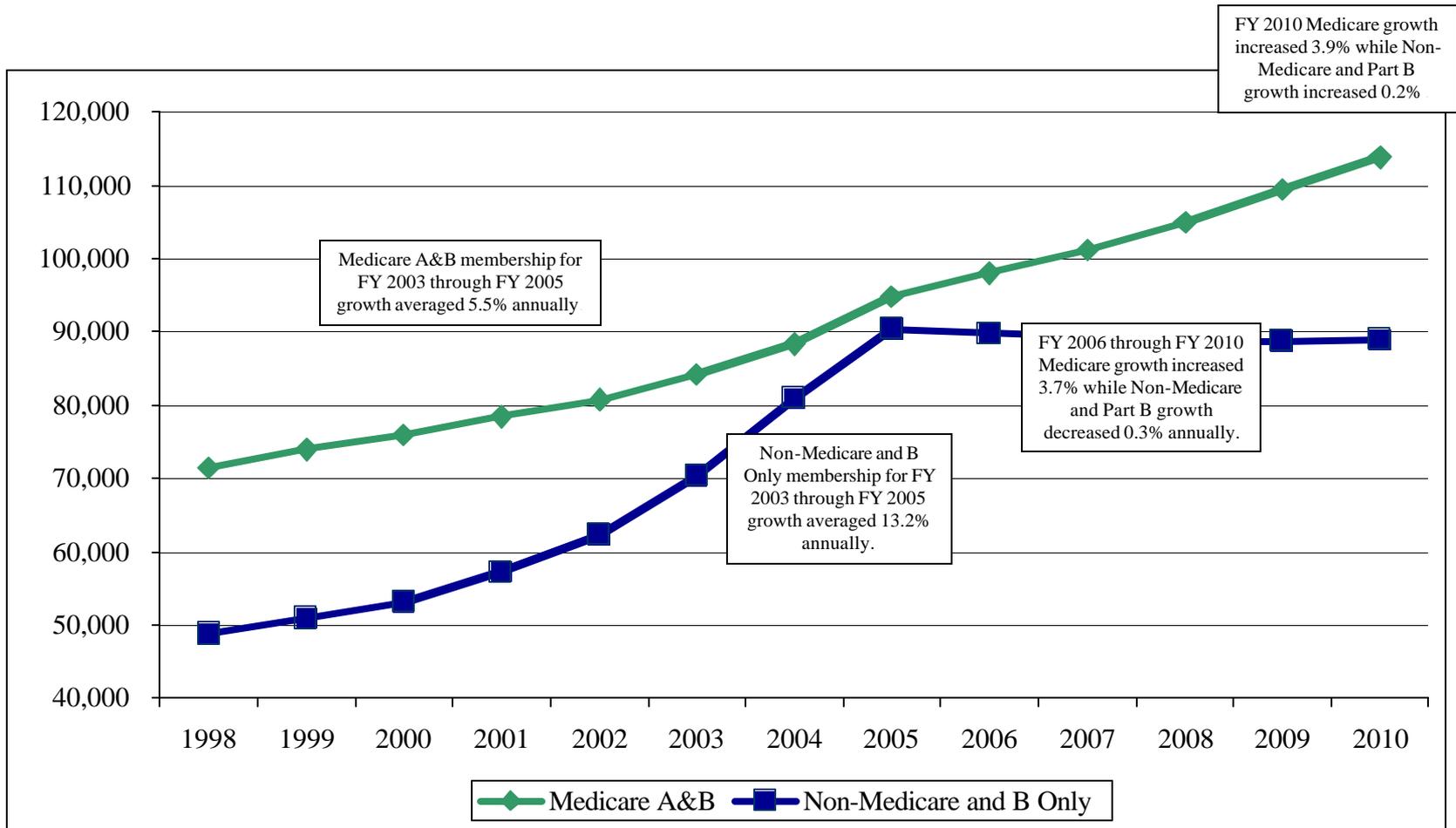
Overall Membership

- Most retirees participate in TRS-Care health care coverage
- Most elect comprehensive coverage



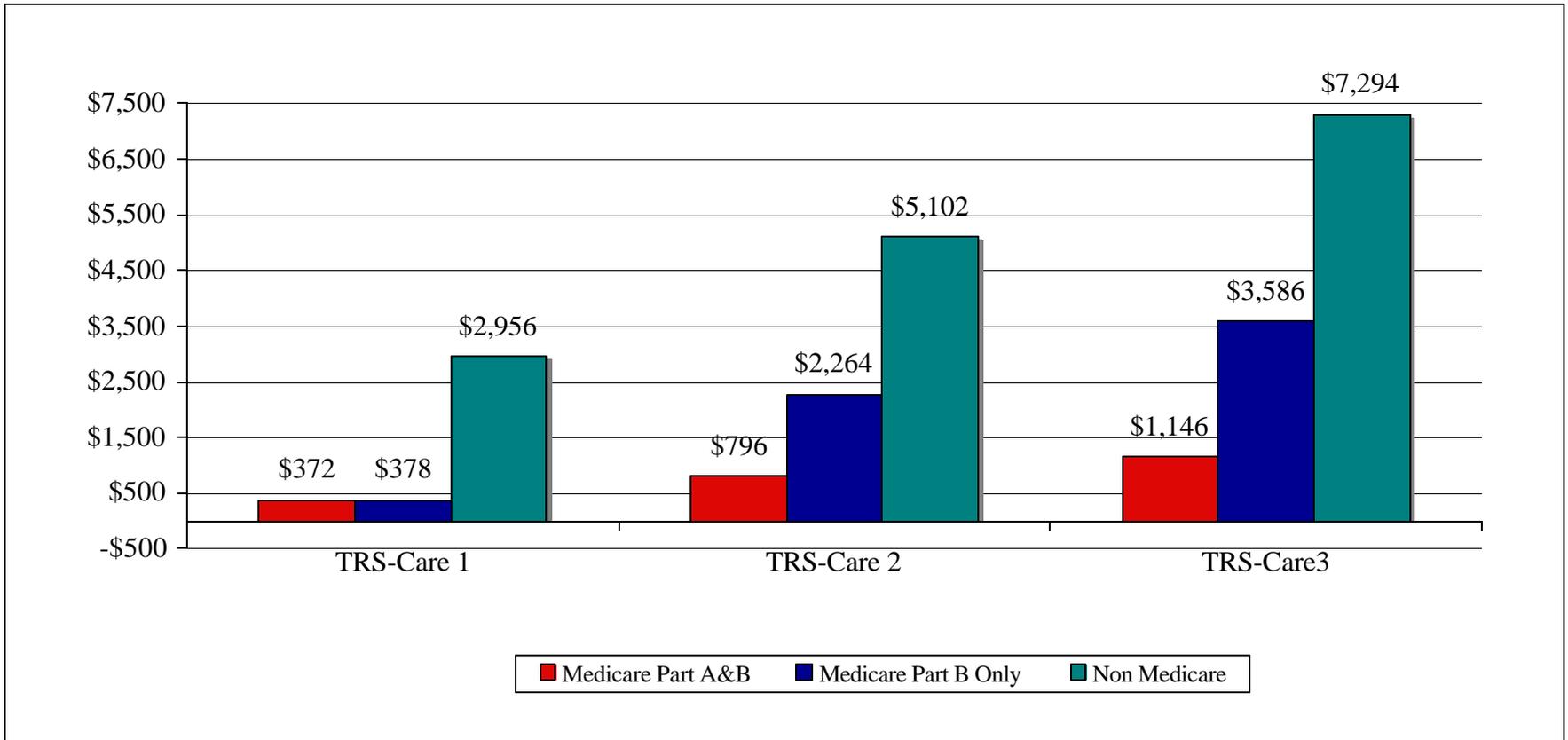
TRS-Care Participation Growth

Number Of Members By Medicare Status



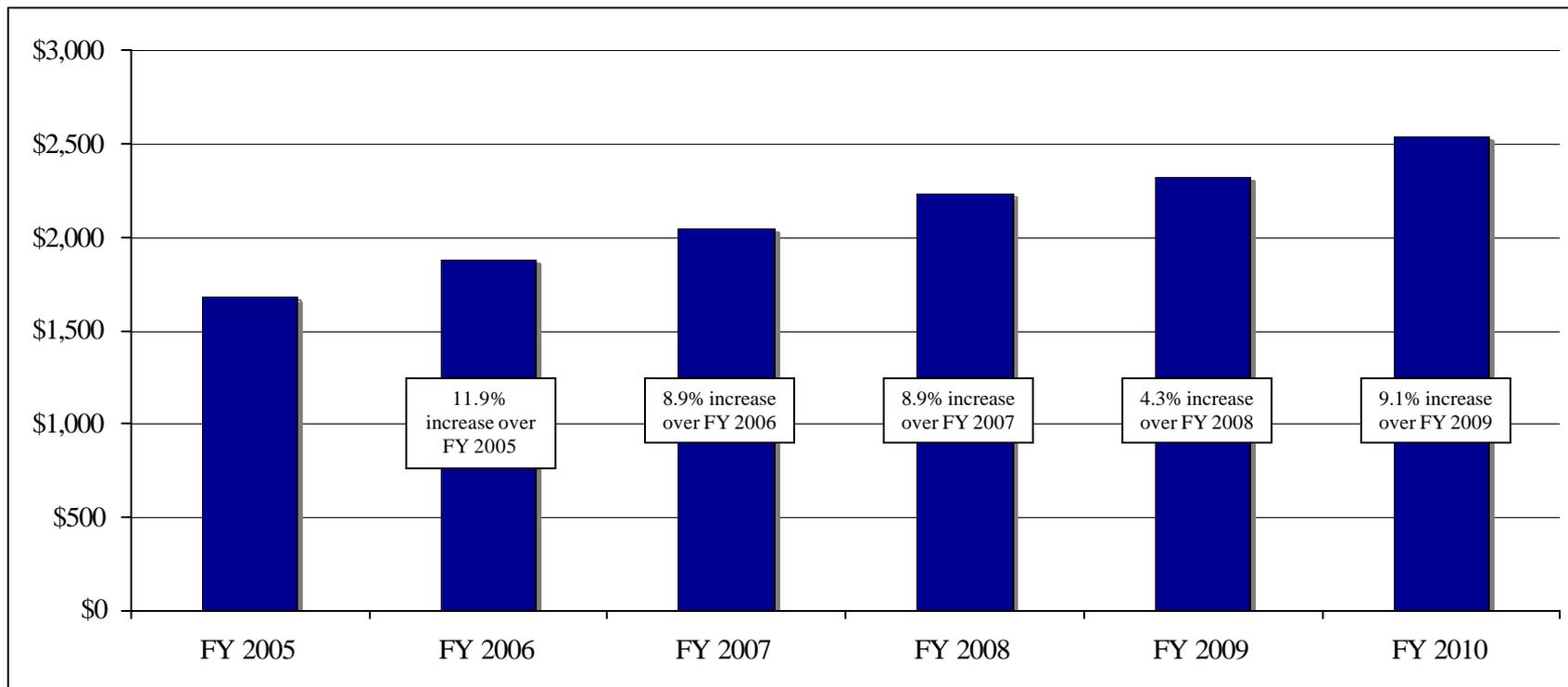
TRS-Care Claims Cost

FY 2010 Average Medical Claims Per Member By
TRS-Care Level And Medicare Status



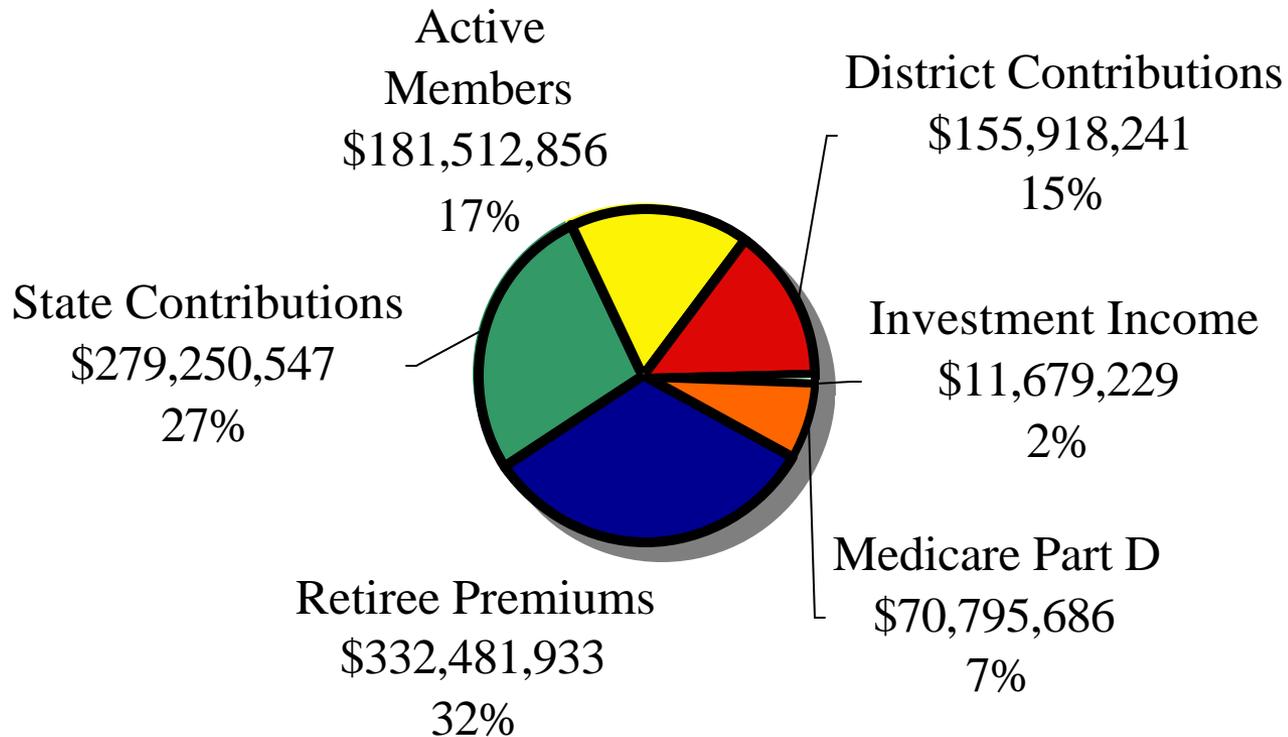
TRS-Care Claims Cost

FY 2010 Average Pharmacy Claims Per Member (net of rebates)

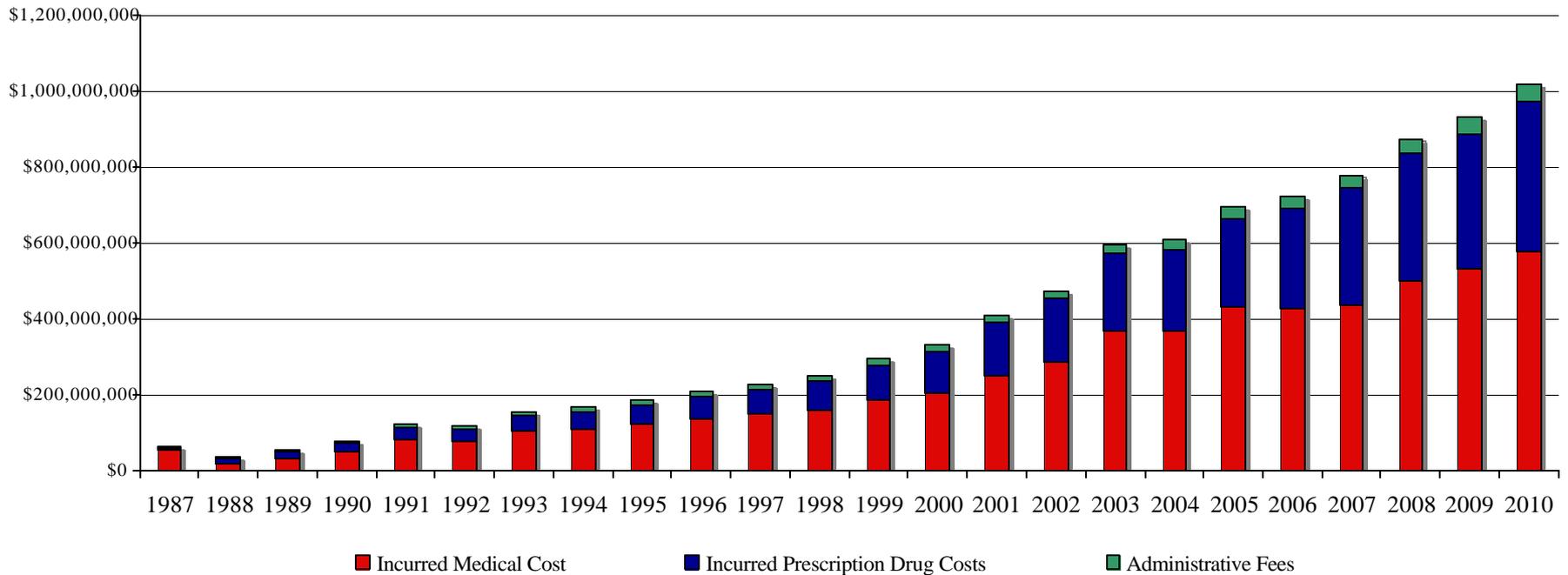


TRS-Care Funding

FY 2010 Distribution of Funding Sources



TRS-Care Historical Expenditures



This chart is only part of the picture of total health care costs. In addition to expenditures made by TRS-Care, retiree costs are shared by Medicare, provider discounts, and retirees. In FY 2010 Medicare paid an estimated \$1.166 billion. Provider discounts contributed over \$530 million and retiree copayments and payments for non-covered services are estimated at \$614 million.

TRS-Care Projections through 2016

	Revenue						Expenditures			Balance
	Retiree Premiums	State Contributions	Member Contributions	District Contributions *	Investment Income	Part D Subsidy	Medical	Drug	Admin	
2010	\$332,481,933	\$279,250,547	\$181,512,856	\$155,918,241	\$11,679,229	\$70,795,686	\$575,539,788	\$395,817,017	\$45,465,776	\$814,964,303
2011	\$348,828,295	\$294,872,757	\$191,667,292	\$164,794,796	\$18,092,322	\$76,709,536	\$664,478,998	\$422,100,690	\$52,977,533	\$770,372,079
2012	\$369,473,421	\$309,616,395	\$201,250,656	\$172,903,797	\$42,742,843	\$88,390,844	\$784,451,698	\$488,278,400	\$55,462,349	\$626,557,589
2013	\$381,520,651	\$325,097,214	\$211,313,189	\$181,418,248	\$33,574,276	\$103,408,815	\$869,482,298	\$565,316,918	\$57,414,863	\$370,675,903
2014	\$393,246,884	\$341,352,075	\$221,878,849	\$190,358,421	\$17,900,119	\$119,738,741	\$971,768,799	\$650,130,904	\$59,262,892	(\$26,011,604)
2015	\$403,613,253	\$358,419,679	\$232,972,791	\$199,745,603	\$1,189,112	\$138,302,444	\$1,080,128,271	\$744,415,018	\$60,970,417	(\$577,282,429)
2016	\$412,884,288	\$376,340,663	\$244,621,431	\$209,602,144	\$0	\$158,987,730	\$1,197,765,198	\$848,368,772	\$62,545,017	(\$1,283,525,159)

*Includes employer surcharge.

Assumptions: Actual data through September 2010

Medical Trend – 10% & Rx Trend - 9.5%

NOTE: These projections assume that retiree premiums and contributions from the state, member, and district remain at the current level.

TRS-Care Cost Drivers

- Increase in medical costs
- Increase in Rx costs
- Maintaining access and choice in managing providers
- Increased utilization due to aging population
- Potential increase in number of retirees (Non-Medicare)
- Potential plan changes in Medicare program
- Technology increases and development of new biogenetic drugs

PBM Contracts

- TRS-Care issued RFP for new PBM contract effective September 1, 2010.
- New TRS-Care PBM contract resulted in \$100m in savings over the next two years.
- Also negotiated new contract terms for TRS-ActiveCare, resulting in \$8m in savings over the next two years.

Management Programs

Both TRS-Care and TRS-ActiveCare have management programs in place to control costs and promote wellness

- Disease management for chronic conditions
- Case management
- Maternity program (ActiveCare only)
- Prior authorization for certain drug classes
- Drug safety and appropriateness programs

TRS-Care OPEB Current Funding Policy

- Active Employees: 0.65% of payroll
- Local Employers: 0.55% of payroll
- State assistance: 1.00% of payroll
- Retiree premiums: In FY 2010 retiree premiums were \$332.5 million, which translates to 1.19% of payroll

2010 Results

Current Funding Policy (\$000s)

	2010	2009	2008
	(1)	(2)	(3)
Discount Rate	5.25%	5.25%	5.25%
Unfunded Actuarial Accrued Liability (in Millions)	\$24,993	\$23,557	\$21,584
Normal Cost (in Millions)	1,103	1,084	982
Annual Required Contribution (in Millions)	2,181	2,100	1,914
ARC per active member (\$)	\$3,146	\$3,084	\$2,874
Total ARC as a % of Payroll	7.09%	7.12%	6.84%
Employer ARC as a % of Payroll (Net of Active Member Contributions)			
Current Contributions: State 1.00%	6.44%	6.47%	6.19%
District <u>0.55%</u>			
Total 1.55%			

Results by Scenario

Advanced Funding Policy (\$000s)

	2010	2009	2008
	(1)	(2)	(3)
Discount Rate	8.00%	8.00%	8.00%
Unfunded Actuarial Accrued Liability (in Millions)	\$16,653	\$15,809	\$14,246
Normal Cost (in Millions)	614	610	542
Annual Required Contribution (in Millions)	1,614	1,560	1,397
ARC per active member (\$)	\$2,328	\$2,288	\$2,098
Total ARC as a % of Payroll	5.25%	5.29%	4.99%
Employer ARC as a % of Payroll (Net of Active Member Contributions)			
Current Contributions: State 1.00%	4.60%	4.64%	4.34%
District 0.55%			
Total 1.55%			

Cash Estimations for FY2011

- The current projected contributions are \$677 million (2.20% of payroll)
- The current expected net claims are \$783 million (\$106 million more than projected contributions)
- To increase to advance funding, the contribution requirement is 5.25% of payroll (increase of \$937 million above the current \$677 million)
 - Medicare Part D Subsidy is approximately 0.23% or \$71 million
 - Early Retiree Reinsurance Program may also provide additional Federal funding, but it would be difficult to estimate how much at this time and is temporary

TRS-ActiveCare

Key Information

- **1996 – TRS administered elective district-participation health plan for public school employees**
 - \$10 annual fee collected from all active members
 - Minimal district participation (peak of 3 districts participating, 327 covered lives)
 - No district participation after FY 99
- **2001 – 77th Legislature established TRS-ActiveCare (effective 9/1/02)**
 - Start-up funding of \$25M from prior active plan, \$42M from TRS-Care
 - \$42M transferred back to TRS-Care the following year
- **Program characteristics**
 - funded primarily by premiums for selected coverage
 - districts contribute minimum of \$150/mo. and the state contributes \$75/mo.
 - participation mandatory for small districts, elective for mid-size districts. Large districts were ineligible to participate until the TRS Board determined it was administratively feasible (9/1/2003).

Overview of TRS-ActiveCare

Plan Design (FY 2011)

- **TRS-ActiveCare 1** – \$1,200 deductible; 80% network/60% non-network plan coinsurance; \$2,000 coinsurance maximum
- **TRS-ActiveCare 1-HD** - \$2,400 deductible for EO, \$2,300 per EF; \$3,000 coinsurance maximum for EO, \$5,000 coinsurance maximum for EF; 80% network/60% non-network plan coinsurance
- **TRS-ActiveCare 2** – \$500 deductible; \$100 per day hospital copay; 80% network/60% non-network plan coinsurance; \$30 office visit copay/\$50 specialist copay; \$2,000 coinsurance maximum; managed drug card program
- **TRS-ActiveCare 3** – no network deductible; \$100 per day hospital copay; \$20 office visit copay/\$30 specialist copay; \$1,000 coinsurance maximum; managed drug card program

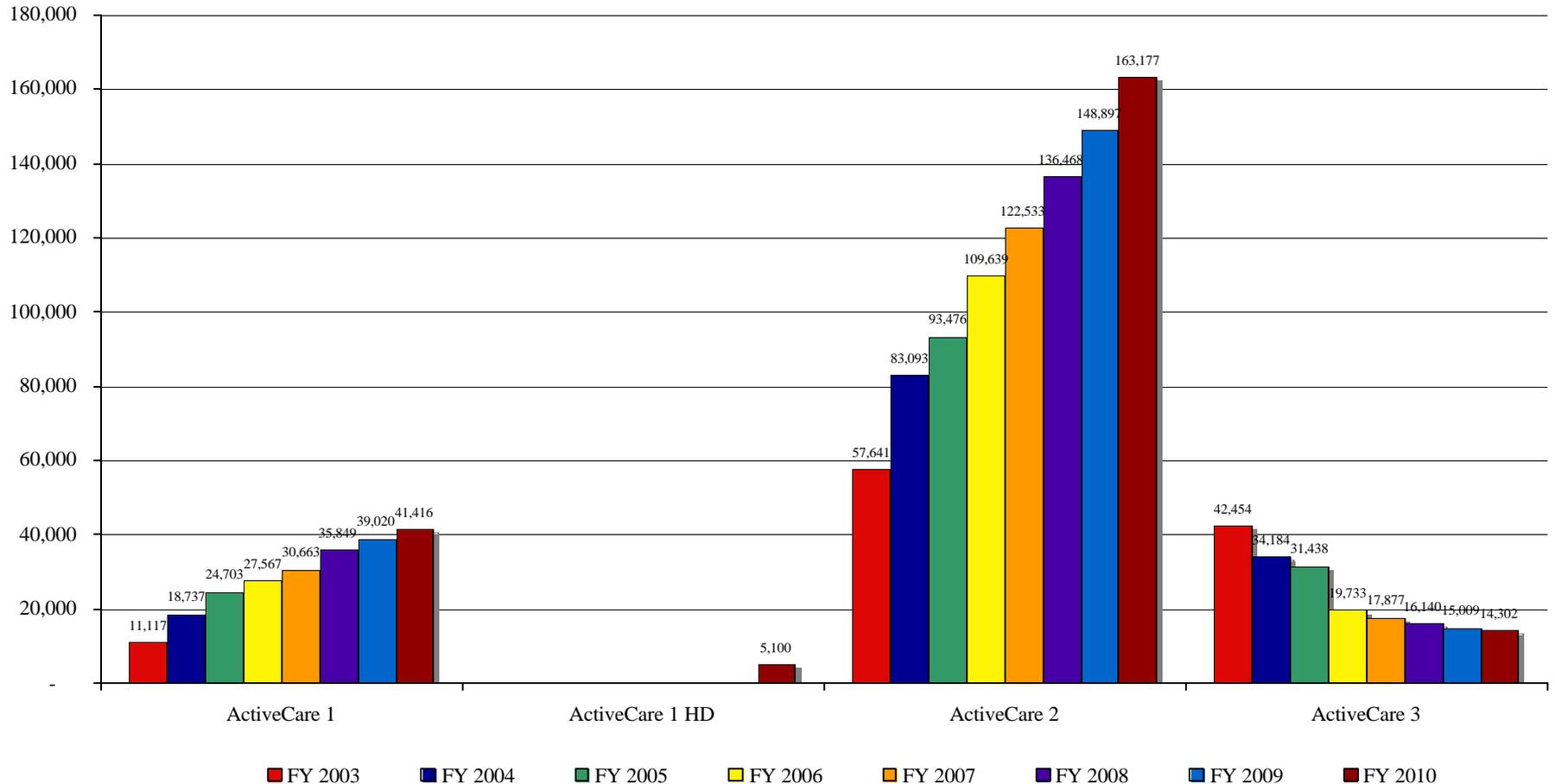
TRS-ActiveCare Participation

Entities Participating

Entity Type	# Eligible	# Participating	% Participating
Less than 500	820	804	98.0%
500 – 1,000	111	93	83.8%
More than 1,000	98	37	37.8%
Charter	193	145	76.7%
RSC	20	20	100.0%
Other Ed	5	5	100.0%
Total	1,247	1,107	88.8%

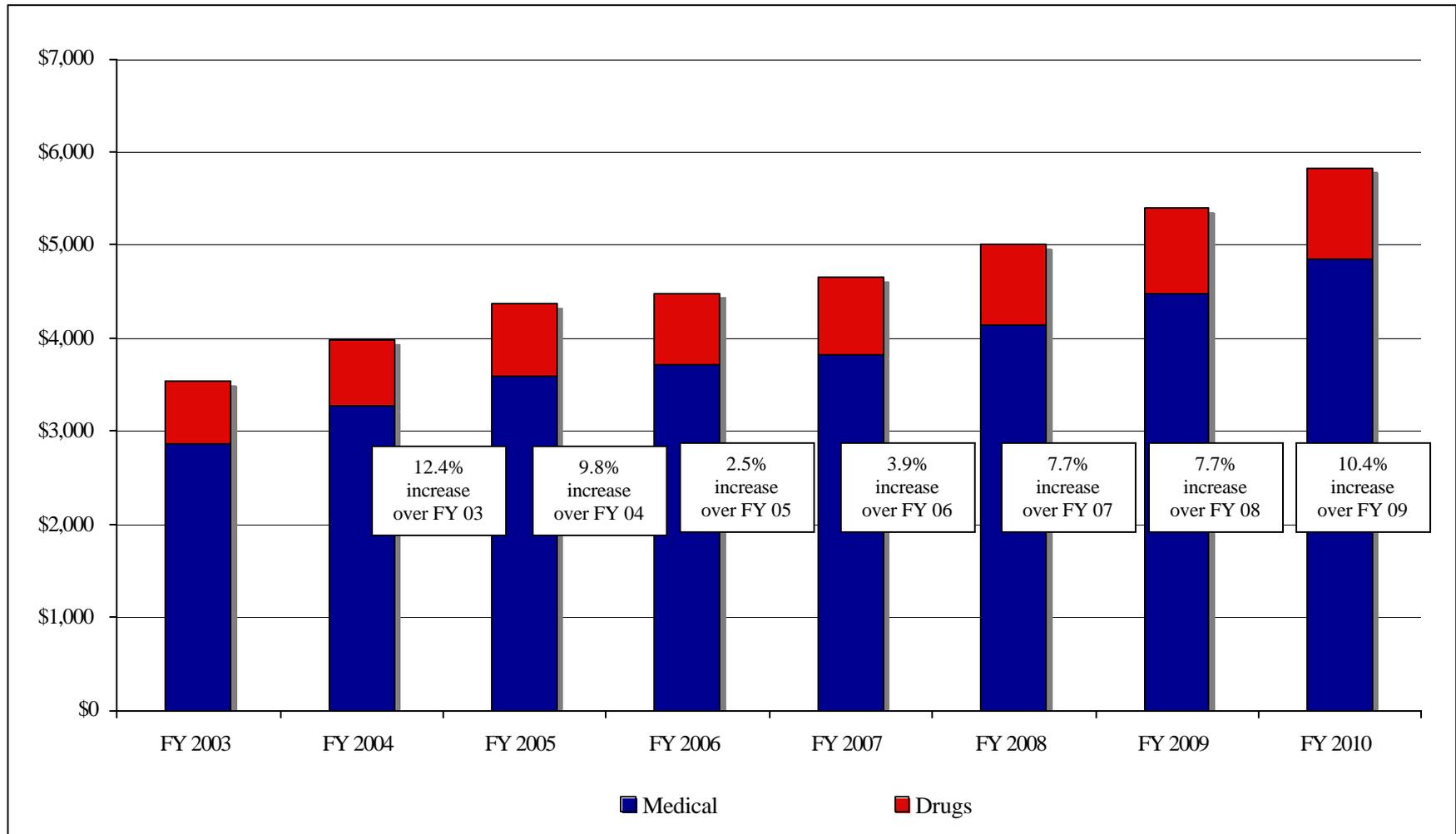
TRS-ActiveCare Participation

Number of Employees By Plan Level



TRS-ActiveCare Claims Cost

Average Paid Claim Cost Per Employee



TRS-ActiveCare

Cost Drivers

- Increase in number of actives
- Increase in medical costs
- Increase in pharmacy costs
- Plan revenue not linked to industry trend
- Technology increases and development of new biogenetic drugs